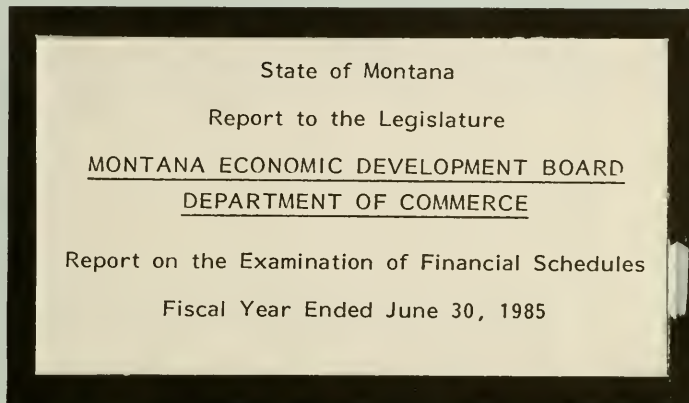


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Montana Economic Development Board, Depa



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State of Montana

Report to the Legislature

MONTANA ECONOMIC DEVELOPMENT BOARD

DEPARTMENT OF COMMERCE

Report on the Examination of Financial Schedules

Fiscal Year Ended June 30, 1985

85-35

Direct comments/inquiries to:
Office of the Legislative Auditor
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Helena, Montana 59620
(406) 444-3122

FINANCIAL COMPLIANCE AUDITS

Financial-compliance audits are conducted by the Office of the Legislative Auditor to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States General Accounting Office.

Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

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Senator Dave Fuller	Vice Chairman
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Audit staff involved in this audit include:

Lorry Parriman, Manager
Julie Barr, Supervisor

STATE OF MONTANA
Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122



SCOTT A. SEACAT
Acting Legislative Auditor

September 1985

DEPUTY LEGISLATIVE AUDITORS:
JAMES H. GILLETT
FINANCIAL COMPLIANCE AUDITS
SCOTT A. SEACAT
PERFORMANCE AUDITS
LEGAL COUNSEL:
JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

This document is our audit of the Montana Economic Development Board of the Department of Commerce. The board's written response to the report is included in the back of the audit report. We would like to thank the administrator, his staff and Department of Commerce personnel for their cooperation and assistance during the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seocat".

Scott A. Seocat
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

MONTANA ECONOMIC DEVELOPMENT BOARD

BOARD MEMBERS

	<u>January Term Expires</u>
D. Patrick McKittrick, Chairman Great Falls, Montana	1987
G. Steven Brown Helena, Montana	1989
Karen K. Locke Eureka, Montana	1989
John C. Orth Butte, Montana	1989
Jackson L. Schutte Billings, Montana	1989
Yvonne Snider Lewistown, Montana	1987
Jeremiah R. Sullivan Helena, Montana	1987

BOARD STAFF

Robert M. Pancich	Administrator
Dale A. Harris	Deputy Administrator

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's reply.

Page

RECOMMENDATION #1

The board record all activity in the Enterprise Fund.

4

Agency Response: Do not concur. See page 22.

RECOMMENDATION #2

The board record all bond activity in a timely manner on the state's accounting records.

6

Agency Response: Concur with reservations. See page 23.

INTRODUCTION

We performed the annual financial-compliance audit of the Montana Economic Development Board (MEDB) of the Department of Commerce for the fiscal year ended June 30, 1985. The objectives of the audit were to: 1) determine if the board's financial schedules present fairly its financial position for the fiscal year ended June 30, 1985, and the results of its operations for the fiscal year then ended; 2) determine the board's compliance with applicable laws and regulations; and 3) make recommendations for improvement in the board's management and internal controls.

This report contains two recommendations to the board. These recommendations address areas where the board can improve management and financial reporting. Other areas of concern deemed not to have a significant effect on the successful operations of the board programs are not included in the report, but have been discussed with management.

We reviewed compliance with state laws and regulations that could have a material impact on the financial schedules of the board. In our opinion, the board complied with state laws and regulations tested. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in the report. Each report section discloses the cost, if significant, of implementing the recommendation.

BACKGROUND

The Montana Economic Development Board (MEDB) was established by the 1983 Legislature and is responsible for the administration of the following four programs.

The Pooled and Stand-alone Industrial Development Bonding Programs (IDB) serve to import funds into the state while providing a source of long-term capital for Montana businesses. These programs provide tax-exempt financing to smaller businesses that

previously were restricted from this market by costs of bond issuance and credit limitations. The Pooled IDB Program combines the debt financing needs of a number of smaller businesses into one bond issue, and prorates the cost among the businesses included in the pool. MEDB issued its first \$3,650,000 of Pooled IDB Program bonds in December 1984. The board has committed to fund seven projects from this sale. As of June 30, 1985, the board had not issued bonds for the Stand-alone IDB Program.

The Coal Tax Loan Program (CTLP) consists of in-state investment of 25 percent of all new revenues deposited in the Permanent Coal Tax Trust Fund after June 30, 1983, principal payments on loans made from the In-state Investment Fund, and 15 percent of the annual income and interest earnings on the In-state Investment Fund. This program makes use of a revolving loan fund. All applications for financing must be originated by an approved Montana lender. The program increases the availability of attractive long-term development capital in the state, and targets funds to businesses which have the potential to benefit the Montana economy. Ten loans, ranging from \$78,427 to \$970,727, are outstanding as of June 30, 1985.

The Montana Capital Company Program is designed to make venture or equity capital available within the state. Through the program, the state offers a 25 percent tax credit incentive (up to \$25,000) to investors in qualified Montana capital companies, which in turn must invest these funds in Montana businesses. Although five companies were certified, only three raised enough capital to be qualified as capital companies as of June 30, 1985. Since the expenditures for this program are minimal, the board reported the activity under the Coal Tax Loan Program.

The Municipal Finance Consolidation Program authorizes the board to purchase bonds and notes issued by local government units for projects under \$500,000. This program had no bond or note activity in fiscal year 1985, as the board determined the program was not cost beneficial. However, during the 1985 legislative session, the board requested a change in the law to allow the board to issue Montana Cash Anticipation Financing (MCAF).

At the beginning of each fiscal year, the board will issue 13 month bonds to be used for the purchase of tax anticipation notes from local governments. Since the expenditures for the programs were minimal, the board reported the activity under the Coal Tax Loan Program.

The programs discussed above were established for the purpose of strengthening, diversifying, and stabilizing the Montana economy. MEDB is attached to the Department of Commerce for administrative purposes. Through fiscal year end June 30, 1985, the financial accounting for the board was performed by the department's Management Services Division. MEDB hired its own accountant in July 1985.

PRIOR AUDIT RECOMMENDATIONS

The prior audit of the MEDB, for the fiscal year ended June 30, 1984, contained four recommendations; of the three recommendations still applicable to the board, MEDB implemented two and did not implement one. The prior audit recommendation not implemented concerns fund reporting and is discussed in the following section.

RECORDING OF FINANCIAL ACTIVITY

The following report sections discuss two circumstances where MEDB could improve the recording of financial activity on the accounting records: 1) fund reporting, and 2) bond transactions.

Fund Reporting

MEDB receives General Fund support for the start-up costs of the CTLP and IDB Programs and for the general operations of the CTLP Program. MEDB's General Fund moneys are recorded within the Department of Commerce's General Fund, making it difficult to get an overview of the board's operations. MEDB's current accounting procedures identify revenues and expenditures, but make it difficult to identify assets, liabilities, and fund balance.

During our prior audit, we recommended MEDB record its activity in the Enterprise Fund. State policy indicates enterprise funds are used for operations where periodic determinations of revenues, expenditures, and net income by program are needed for management control. For this audit, MEDB personnel believed it was more meaningful to management and outside users to present financial information based on program activity rather than on where the activity was recorded under the state treasury fund structure within the accounting records. Therefore, the board's financial schedules are materially different from the information presented on the state's accounting system.

By reporting its activity by program, MEDB is, in essence, showing an enterprise operation. The board could record the financial information according to its preferred method on the state's accounting records by recording a transfer out in the General Fund and recording a transfer in in the Enterprise Fund. However, the board would need to budget for the transfer. Using the board's preferred method, it could account for all expenditures, revenues, assets, and liabilities in a consolidated manner, providing a more meaningful reporting of the results of all the board's operations to management, the legislature, and to the public.

Because state law requires coal severance tax monies, a portion of which is allocated to MEDB, to remain inviolate, this money is recorded in a Nonexpendable Trust Fund. The board should carefully consider the nature of these funds before transferring the moneys to the Enterprise Fund. However, this should not effect the transfer of the remaining board activity.

RECOMMENDATION #1

WE RECOMMEND THE BOARD RECORD ALL ACTIVITY IN THE ENTERPRISE FUND.

Bond Transactions

In December 1984, MEDB issued \$3,650,000 of bonds relating to the IDB Program. The board made one entry on the accounting records in June 1985 to record its initial IDB bond transaction. The board did not record the activity reported by the trustee between December 1984 and June 1985 in its accounting records. As a result, the accounting records do not reflect investments made, loans receivable, interest and investment income, bond interest and amortization expenses, and transfers among programs. The following table indicates the activity not recorded on the state's accounting records.

	<u>Recorded on State's Accounting Records</u>	<u>Recorded on Adjusted Financial Schedules</u>	<u>*Difference</u>
Cash	\$3,388,000	\$ 472	\$3,387,528
Interest Receivable		100,674	100,674
Loan Receivable		1,229,466	1,229,466
Unamortized Discount		68,066	68,066
Investments		2,278,069	2,278,069
Capitalized Issuance, Interest and Underwriters Fees	262,000	185,769	76,231
Bonds Payable	3,650,000	3,650,000	-0-
Bond Interest Payable		107,953	107,953
Loan Interest Revenue		52,183	52,183
Investment Income		128,305	128,305
Bond Interest Expense		200,064	200,064
Amortized Underwriters Dis- count and Cost of Issuance		4,452	4,452
Transfers In		784,844	784,844
Transfers Out		792,385	792,385

*Absolute dollar amounts not recorded on the state's accounting records.

Section 17-1-102(2), MCA, requires the Department of Administration to establish uniform accounting and reporting for all state agencies, showing the receipt, use, and disposition of public

money. As a result, the department established the Statewide Budgeting and Accounting System (SBAS). The department established this system to:

1. Provide an accounting system which accurately records and permits the meaningful reporting of assets, liabilities, receipts, disbursements and fund balance.
2. Provide all levels of management with financial information needed for decision making and to assure the effective discharge of administrative responsibilities.

In order to fully disclose the bond transactions, the board should record all the activity related to the issue on the state's accounting records. Management Services Division personnel stated that they did not have time at fiscal year-end to review the bond trustee reports and obtain the necessary information. The financial schedules were adjusted by the board to include the bond activity.

RECOMMENDATION #2

WE RECOMMEND THE BOARD RECORD ALL BOND ACTIVITY IN A TIMELY MANNER ON THE STATE'S ACCOUNTING RECORDS.

INTERNAL CONTROL

We have examined the financial schedules of the Montana Economic Development Board for the fiscal year ended June 30, 1985. We issued our opinion dated August 19, 1985, on these schedules. As part of our examination, we made a study and evaluation of the system of control of the Montana Economic Development Board which is administered through the Department of Commerce. Our study evaluated the system as required by generally accepted auditing standards and Standards for Audit of Governmental Organizations, Programs, Activities and Functions. We classified the controls in the following categories: 1) revenue and receivables; 2) payroll; 3) expenditures and payables; 4) cash; 5) investments; and 6) property, plant, and equipment.

Our study included the control categories listed above. We performed substantive audit tests on revenue and receivables, cash, investments, and property, plant and equipment because it was more efficient to do so. Through our study, we determined the nature, timing, and extent of our audit procedures. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of the Montana Economic Development Board is responsible for establishing and maintaining a system of control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: 1) assets are safeguarded against loss from unauthorized use or disposition; 2) transactions are executed in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial schedules in accordance with the basis of accounting described in Note 1 to the financial schedules. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system of controls used by the Montana Economic Development Board. Accordingly, we do not express an opinion on the system of controls used by the board. However, our study disclosed a condition that could result in financial schedule errors that would be difficult to detect. This condition relating to the recording of bond transactions is discussed on page 5.

The preceding four paragraphs are intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

AUDITOR'S REPORT AND AGENCY FINANCIAL SCHEDULES

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
406/444-3122

DEPUTY LEGISLATIVE AUDITORS:

JAMES GILLET
FINANCIAL-COMPLIANCE AUDITS

JIM PELLEGRINI
PERFORMANCE AUDITS

LEGAL COUNSEL:

JOHN W. NORTHEY



SCOTT A. SEACAT
LEGISLATIVE AUDITOR

The Legislative Audit Committee
of the Montana State Legislature:

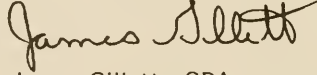
We have examined the Schedules of Assets, Liabilities, and Equity for the Industrial Development Bond and Coal Tax Loan Programs of the Montana Economic Development Board (MEDB) as of June 30, 1985, and the related Schedules of Revenues Earned, Expenses Incurred, and Changes in Equity; and Schedules of Increases and Decreases of Working Capital for the year then ended. Our examination was made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1B, the Montana Economic Development Board financial schedules are prepared using a fund structure inconsistent with the State of Montana Comprehensive Annual Financial Report. In addition, the financial schedules are not comparable to the previous year's financial statements which were prepared in accordance with generally accepted accounting principles. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

The board's financial schedules are materially different from its accounting records on the Statewide Budgeting and Accounting System (SBAS). The variances between the financial schedules and the accounting records are the result of board adjustments necessary to correct errors in the accounting records and presentation of financial information by program rather than by the state treasury fund structure.

In our opinion, the financial schedules referred to in paragraph one present fairly the financial position for the Coal Tax Loan and Industrial Development Bond Programs of the Montana Economic Development Board as of June 30, 1985, and the results of operations and changes in equity for the year then ended in conformity with the basis of accounting as described in Note 1.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "James Gillett", with a stylized flourish at the end.

James Gillett, CPA
Deputy Legislative Auditor

August 19, 1985

MONTANA ECONOMIC DEVELOPMENT BOARD
INDUSTRIAL DEVELOPMENT BOND PROGRAM
SCHEDULE OF ASSETS, LIABILITIES, AND EQUITY
JUNE 30, 1985

	Bond Payment Account	Bond Program Account	Capital Reserve Account	Cost of Issuance Account	Loan Account	Bond Guarantee Account	IDB Administration Account	IDB Program Totals
ETS:								
Cash in Treasury						\$ 929	\$109,098	\$ 110,027
Cash with Bond Trustee	\$ 181	\$ 75	\$ 68	\$ 85	\$ 63			472
Due From General Fund							21,141	21,141
Interest Receivable		65,134	22,613	5	12,922			100,674
Investment:								
Montana Short-Term Investment Pool						6,726		6,726
Bond Trustee Money Market Fund #2		40,000		700	39,800			80,500
U.S. Treasury Bills		1,666,963						1,666,963
U.S. Treasury Bonds			530,606					530,606
Accounts Receivable		1,229,466						1,229,466
Unamortized Discount		(68,066)						(68,066)
Capitalized Cost of Issuance				103,903				103,903
Capitalized Underwriter Discount		81,866						81,866
TOTAL ASSETS	<u>\$ 181</u>	<u>\$3,015,438</u>	<u>\$553,287</u>	<u>\$104,693</u>	<u>\$52,785</u>	<u>\$7,655</u>	<u>\$130,239</u>	<u>\$3,864,278</u>
LIABILITIES:								
Due to Other Funds							\$ 3,215	\$ 3,215
Accounts Payable							304	304
Due to General Fund							150,000	150,000
Bond Interest Payable	\$ 107,953							107,953
Long Term Debt:								
Compensated Absences							8,365	8,365
Bonds Payable		\$3,650,000						3,650,000
TOTAL LIABILITIES	<u>107,953</u>	<u>3,650,000</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>161,884</u>	<u>3,919,837</u>
EQUITY:								
Retained Earnings - Reserved (See Note 1B)			525,000			7,655		532,655
Retained Earnings	(107,772)	(634,562)	28,287	104,693	52,785		(31,645)	(588,214)
TOTAL EQUITY	<u>(107,772)</u>	<u>(634,562)</u>	<u>553,287</u>	<u>104,693</u>	<u>52,785</u>	<u>7,655</u>	<u>(31,645)</u>	<u>(55,559)</u>
TOTAL LIABILITIES AND EQUITY	<u>\$ 181</u>	<u>\$3,015,438</u>	<u>\$553,287</u>	<u>\$104,693</u>	<u>\$52,785</u>	<u>\$7,655</u>	<u>\$130,239</u>	<u>\$3,864,278</u>

Notes to the financial schedules are an integral part of this schedule.

MONTANA ECONOMIC DEVELOPMENT BOARD
INDUSTRIAL DEVELOPMENT BOND PROGRAM
SCHEDULE OF REVENUES EARNED, EXPENSES INCURRED, AND CHANGES IN EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 1985

	Bond Payment Account	Bond Program Account	Capital Reserve Account	Cost of Issuance Account	Loan Account	Bond Guarantee Account	IDB Administration Account	IDB Program Totals
ING REVENUES:								
ation Fees:								
nd-Alone Program							\$ 2,500	\$ 2,500
ed Program							17,000	17,000
ment Interest	\$ 931	\$ 93,472	\$ 31,953	\$ 1,347	\$ 602	\$ 114		128,419
Interest					52,183			52,183
Fees							31,485	31,485
AL REVENUES	<u>931</u>	<u>93,472</u>	<u>31,953</u>	<u>1,347</u>	<u>52,785</u>	<u>114</u>	<u>50,985</u>	<u>231,587</u>
ING EXPENSES:								
-Alone Program							14,114	14,114
d Program							85,959	85,959
Interest	200,064							200,064
sized Underwriter Discount		2,084						2,084
sized Cost of Issuance				2,368				2,368
EXPENSES	<u>200,064</u>	<u>2,084</u>	<u>-0-</u>	<u>2,368</u>	<u>-0-</u>	<u>-0-</u>	<u>100,073</u>	<u>306,589</u>
ING INCOME (LOSS)	<u>(199,133)</u>	<u>91,388</u>	<u>31,953</u>	<u>(1,021)</u>	<u>52,785</u>	<u>114</u>	<u>(49,088)</u>	<u>(73,002)</u>
INANCING SOURCES (USES):								
rt from General Fund							25,808	25,808
fers In	125,873		551,971	107,000		7,541		792,385
fers Out	(34,512)	(725,950)	(30,637)	(1,286)				(792,385)
OTHER FINANCING SOURCES (USES)	<u>91,361</u>	<u>(725,950)</u>	<u>521,334</u>	<u>105,714</u>	<u>-0-</u>	<u>7,541</u>	<u>25,808</u>	<u>25,808</u>
OME (LOSS)	<u>(107,772)</u>	<u>(634,562)</u>	<u>553,287</u>	<u>104,693</u>	<u>52,785</u>	<u>7,655</u>	<u>(23,280)</u>	<u>(47,194)</u>
ING RETAINED EARNINGS	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>
ION OF COMPENSATED ABSENCES	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>-0-</u>	<u>(8,365)</u>	<u>(8,365)</u>
RETAINED EARNINGS	<u>\$ (107,772)</u>	<u>\$ (634,562)</u>	<u>\$ 553,287</u>	<u>\$ 104,693</u>	<u>\$ 52,785</u>	<u>\$ 7,655</u>	<u>\$ (31,645)</u>	<u>\$ (55,559)</u>

es to the financial schedules are an integral part of this schedule.

MONTANA ECONOMIC DEVELOPMENT BOARD
 INDUSTRIAL DEVELOPMENT BOND PROGRAM
 SCHEDULE OF INCREASES AND DECREASES IN WORKING CAPITAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 1985

	Bond Payment Account	Bond Program Account	Capital Reserve Account	Cost of Issuance Account	Loan Account	Bond Guarantee Account	IDB Administration Account	IDB Program Totals
TO WORKING CAPITAL								
ome (Loss)	\$ (107,772)	\$ (634,562)	\$553,287	\$104,693	\$52,785	\$7,655	\$(23,280)	\$ (47,194)
ceeds		3,566,050						3,566,050
on Montana General Fund							150,000	150,000
INCREASE TO WORKING CAPITAL	<u>(107,772)</u>	<u>2,931,488</u>	<u>553,287</u>	<u>104,693</u>	<u>52,785</u>	<u>7,655</u>	<u>126,720</u>	<u>3,668,856</u>
TO WORKING CAPITAL								
ment in Long Term U.S.T. Bonds		1,161,400						1,161,400
ized Issuance Costs			530,606					530,606
ated Absence Payable				103,903			8,365	103,903
DECREASE TO WORKING CAPITAL	<u>-0-</u>	<u>1,161,400</u>	<u>530,606</u>	<u>103,903</u>	<u>-0-</u>	<u>-0-</u>	<u>8,365</u>	<u>1,804,274</u>
(DECREASE) IN WORKING CAPITAL	<u>\$(107,772)</u>	<u>\$1,770,088</u>	<u>\$ 22,681</u>	<u>\$ 790</u>	<u>\$52,785</u>	<u>\$7,655</u>	<u>\$118,355</u>	<u>\$1,864,582</u>

s to the financial schedules are an integral part of this schedule.

MONTANA ECONOMIC DEVELOPMENT BOARD
 COAL TAX LOAN PROGRAM
 SCHEDULE OF ASSETS, LIABILITIES, AND EQUITY
 JUNE 30, 1985

	<u>Coal Tax Loan Account</u>	<u>Loan Loss Reserve Account</u>	<u>CTLP Administration Account</u>	<u>CTL Program Totals</u>
ASSETS:				
Cash in Treasury	\$ 1,997,376			\$ 1,997,376
Accounts Receivable		\$ 700		700
Due From Other Funds		851	\$ 178	1,029
Due From General Fund			21,260	21,260
Investment in STIP	17,958,577			17,958,577
Interest Purchased	46			46
Loans Receivable	3,179,557			3,179,557
Equipment			14,565	14,565
Accumulated Depreciation			(1,144)	(1,144)
TOTAL ASSETS	<u>\$23,135,556</u>	<u>\$1,551</u>	<u>\$34,859</u>	<u>\$23,171,966</u>
LIABILITIES:				
Accounts Payable			\$ 1,469	\$ 1,469
Due to Other Funds			11,759	11,759
Due to General Fund	\$ 1,323,286			1,323,286
Long Term Debt - Compensated Absences			8,210	8,210
TOTAL LIABILITIES	<u>1,323,286</u>	<u>-0-</u>	<u>21,438</u>	<u>1,344,724</u>
EQUITY:				
Contributed Capital - Coal Severance Tax	21,812,270			21,812,270
Contributed Capital in Equipment			13,421	13,421
Retained Earnings		1,551		1,551
TOTAL EQUITY	<u>21,812,270</u>	<u>1,551</u>	<u>13,421</u>	<u>21,827,242</u>
TOTAL LIABILITIES AND EQUITY	<u>\$23,135,556</u>	<u>\$1,551</u>	<u>\$34,859</u>	<u>\$23,171,966</u>

The notes to the financial schedules are an integral part of this schedule.

MONTANA ECONOMIC DEVELOPMENT BOARD
COAL TAX LOAN PROGRAM
SCHEDULE OF REVENUES EARNED, EXPENSES INCURRED, AND CHANGES IN EQUITY
FOR THE FISCAL YEAR ENDED JUNE 30, 1985

	<u>Coal Tax Loan Account</u>	<u>Loan Loss Reserve Account</u>	<u>CTLP Administration Account</u>	<u>CTL Program Totals</u>
REVENUES:				
Loan Application Fees	\$ 31,304	\$1,500		\$ 32,804
Loan Interest Income	135,225	51		135,276
Investment Income	<u>1,384,694</u>			<u>1,384,694</u>
TOTAL REVENUES FROM OPERATIONS	<u>1,551,223</u>	<u>1,551</u>	<u>-0-</u>	<u>1,552,774</u>
EXPENSES:				
CTLP Capital Companies (See Note 1B)			\$ 191,778	191,778
Municipal Bonds and Notes (See Note 1B)			5,833	5,833
Depreciation Expense			10,390	10,390
TOTAL EXPENSES FROM OPERATIONS			<u>1,144</u>	<u>1,144</u>
			<u>209,145</u>	<u>209,145</u>
OPERATING INCOME (LOSS)	<u>1,551,223</u>	<u>1,551</u>	<u>(209,145)</u>	<u>1,343,629</u>
OTHER FINANCING SOURCES (USES):				
Support from General Fund Transfers Out	(1,323,286)		214,034	214,034
Transfers In	11,231,404			(1,323,286)
Contributed Equipment			5,950	11,231,404
TOTAL OTHER FINANCING SOURCES (USES)	<u>9,908,118</u>	<u>-0-</u>	<u>219,984</u>	<u>5,950</u>
			<u>219,984</u>	<u>10,128,102</u>
NET INCOME	<u>11,459,341</u>	<u>1,551</u>	<u>10,839</u>	<u>11,471,731</u>
BEGINNING CONTRIBUTED CAPITAL				
	<u>10,352,929</u>	<u>-0-</u>	<u>-0-</u>	<u>10,352,929</u>
PRIOR YEAR CONTRIBUTED CAPITAL - EQUIPMENT				
			8,615	8,615
ASSUMPTION OF COMPENSATED ABSENCES				
			<u>(6,033)</u>	<u>(6,033)</u>
BEGINNING RETAINED EARNINGS AND CONTRIBUTED CAPITAL AS ADJUSTED				
	<u>10,352,929</u>	<u>-0-</u>	<u>2,582</u>	<u>10,355,511</u>
ENDING RETAINED EARNINGS AND CONTRIBUTED CAPITAL				
	<u>\$21,812,270</u>	<u>\$1,551</u>	<u>\$ 13,421</u>	<u>\$21,827,242</u>

The notes to the financial schedules are an integral part of this schedule.

MONTANA ECONOMIC DEVELOPMENT BOARD
COAL TAX LOAN PROGRAM
SCHEDULE OF INCREASES AND DECREASES IN WORKING CAPITAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1985

	Coal Tax Loan <u>Account</u>	Loan Loss Reserve <u>Account</u>	CTLP Administration <u>Account</u>	CTL Program <u>Totals</u>
INCREASES TO WORKING CAPITAL				
Net Income	\$11,459,341	\$1,551	\$10,839	\$11,471,731
Depreciation Expense	<u> </u>	<u> </u>	1,144	<u> </u> 1,144
TOTAL INCREASES TO WORKING CAPITAL	<u>11,459,341</u>	<u>1,551</u>	<u>11,983</u>	<u>11,472,875</u>
DECREASES TO WORKING CAPITAL				
Increase in Loans Receivable	3,001,693			3,001,693
Compensated Absences Equipment	<u> </u>	<u> </u>	8,210 13,421	<u> </u> <u> </u> 8,210 13,421
TOTAL DECREASES TO WORKING CAPITAL	<u>3,001,693</u>	<u>-0-</u>	<u>21,631</u>	<u>3,023,324</u>
NET INCREASE (DECREASE) IN WORKING CAPITAL	<u>\$ 8,457,648</u>	<u>\$1,551</u>	<u>\$(9,648)</u>	<u>\$ 8,449,551</u>

The notes to the financial schedules are an integral part of this schedule.

MONTANA ECONOMIC DEVELOPMENT BOARD
NOTES TO THE FINANCIAL SCHEDULES
FOR THE FISCAL YEAR ENDED JUNE 30, 1985

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF ACCOUNTING

For financial schedule presentation, the Montana Economic Development Board uses the accrual basis of accounting. Under this basis, expenses are recorded when incurred and revenues are recorded when earned.

The financial schedules were prepared from information contained in the Montana Statewide Budgeting and Accounting System (SBAS), with adjustments, and information contained in the Series 1984 Industrial Revenue Bond Trustee monthly statements.

B. BASIS OF PRESENTATION

EXCEPTION TO REPORTING UNDER NCGA STATEMENT 1

These schedules are grouped into accounts different than the reporting structure under the National Council on Governmental Accounting (NCGA) Statement 1 for preparation of a Combined Annual Financial Report (CAFR). This provides potential bond holders and management a program oriented focus for financial reporting.

INDUSTRIAL DEVELOPMENT BOND (IDB) PROGRAM All operations relating to the Montana Economic Development Board Industrial Development Bond Program and Issue Series 1984 bonds are recorded in these accounts.

Bond Payment Account: Records bond interest payments and transfers from the loan account. The Capital Reserve Account and the Bond Guarantee Account are available to support any deficits in the loan agreement.

Bond Program Account: Records bond proceeds after funding the Bond Payment Account, the Capital Reserve Account

and the Cost of Issuance Account. Money remaining is used to fund loans in the IDB program.

Capital Reserve Account: Records the reserve of \$525,000 as required by the Series 1984 IDB bond indenture. It is funded by the initial bond proceeds. These moneys can be transferred to the Bond Payment Account to cover deficits which occur in the Bond Payment Account.

Cost of Issuance Account: Records the cost of issuance of the Series 1984 IDB bond issue. It is funded by initial bond proceeds.

Loan Account: Records initial receipt of loan repayments received under the bond loan agreements, until transferred to other accounts.

Bond Guarantee Account: Accounts for all revenues of the Series 1984 IDB issue not required for payment of principal or interest on the bonds, or for restoration of the Capital Reserve Account. If funds are insufficient in the Bond Payment Account to pay principal or interest, the Guarantee Account transfers to the Bond Payment Account prior to transfers in from the Capital Reserve Account. Remaining balances may be used for administration.

IDB Administration Account: Records administrative expenses. It is funded by application fees and support from the General Fund.

COAL TAX LOAN (CTL) PROGRAM All operations relating to the Coal Tax Loan Program of the Montana Economic Development Board are recorded in these accounts.

Coal Tax Loan Account: Records coal tax loan activity, application fees, investment and interest income and the portion of the coal severance tax set aside for the CTL program.

Loan Loss Reserve Account: Records all application fees and .25 percent of the interest earned on coal tax loans. The purpose of the account is to cover possible later losses on loan defaults.

CTLP Administration Program: Records the administrative costs of the Montana Economic Development Board related to

the Coal Tax Loan Program, the Montana Capital Companies Program and the Municipal Finance Consolidation Program. The board receives state General Fund moneys for these costs.

C. ANNUAL AND SICK LEAVE

Annual leave and sick leave costs are not recorded until leave is taken. Upon termination, qualifying employees with unused accumulated annual and sick leave receive 100 percent payment on annual leave and 25 percent payment on sick leave.

D. FIXED ASSETS AND DEPRECIATION

Fixed assets are recorded in the CTLP Administration Program and are depreciated on a straight line basis, with salvage value, in accordance with state policy.

2. EMPLOYEES' RETIREMENT SYSTEM

Montana Economic Development Board employees are covered by the Public Employees' Retirement System, which is administered by the State of Montana. Under this system, the state contributes 6.417 percent of an employee's gross wages, while the employee contributes 6 percent of his/her wages. The board's contribution to the retirement system for the fiscal year ended June 30, 1985, was \$9,674.

3. INVESTMENTS

Montana Economic Development Board purchases investments from the State Short-Term Investment Pool (STIP), unless otherwise noted.

Investments made by the Bond Indenture Trustee are identified by the type and source of the investment purchased adjusted by unamortized premium or discount.

The cost and market values for investments other than money markets by account as of June 30, 1985 are as follows:

	<u>Cost</u>	<u>Market</u>
Bond Program Account	\$ 1,666,963	\$ 1,745,854
Capital Reserve Account	530,606	563,938
Bond Guarantee Account	6,726	6,804
Coal Tax Loan Account	17,958,577	18,363,051

For money market investments, cost and market values are equal.

4. BOND ISSUE

Montana Economic Development Board Industrial Development Revenue Bonds (Pooled Loan Program) Series 1984A through 1984G were issued December 15, 1984. The bonds were issued for the purpose of providing funds for the Montana Economic Development Board to finance the purchase of economic development loans in the state of Montana. The bonds are limited obligations of the board payable solely from and secured by certain revenues and assets of the board pledged pursuant to an Indenture of Trust as supplemented, dated December 14, 1984, between the board and First Trust Company of Montana (Trustee).

Included within such revenues and assets are the amounts from time to time deposited in the board's Capital Reserve Account and its Bond Guarantee Account. If the balance in the board's Capital Reserve Account falls below the amount of Capital Reserve Requirement established by the indenture, then the Governor is required to request the Legislature to appropriate funds to restore the balance. The Legislature may, but is not legally obligated to, appropriate funds to correct any such deficiency.

The bonds do not constitute a debt, liability, or legal obligation of the State of Montana, and neither the faith and credit nor the taxing power of the State of Montana is pledged to payment of the principal of or the interest on the bonds. The board has no taxing power.

The bonds were issued as fully registered bonds in denominations of \$5,000, and integral multiples. Bond interest dates are March 15 and September 15 each year. The value of bonds issued is \$3,650,000, with retirements taking place from 1986 until the

end of the issue in 2006. The bonds were sold to finance the following loans: Series A - \$59,000 to Montana Claims Service, Billings, Montana; Series B - \$424,000 to Tom R. Wiggin and Michael Torgerson, Kalispell, Montana; Series C - \$212,000 to Montana Family Chiropractic Center, Kalispell, Montana; Series D - \$806,000 to New Horizon Partnership, Kalispell, Montana; Series E - \$350,000 to Kalispell Electric, Kalispell, Montana; Series F - \$186,000 to Dolores M. Young, Kalispell, Montana; Series G - \$1,000,000 to Medical Arts Block, Helena, Montana.

5. LOANS PAYABLE

The Montana Economic Development Board currently has a \$150,000 loan to the IDB Administration Account from the General Fund. The purpose of the loan is to fund the costs of operation for the Account until earnings on bond proceeds are available to cover the costs of operation associated with the account. The state legislature gave the board authority to carry the loan over four years. Of the current loan of \$150,000, the Montana Economic Development Board has used \$52,166. There have been no repayments.

6. TRANSFERS

The IDB transfers are moneys transferred between IDB accounts as required by the bond indenture. The CTLP transfers in are the current year portion of the coal severance tax allocated to MEDB. The CTLP transfers out are 85 percent of the investment earnings and the application fees.

7. SUBSEQUENT EVENTS

On August 8, 1985, MEDB issued bonds of \$350,000 for the Stand-alone IDB Program. On August 27, 1985, MEDB issued \$18,575,000 of Montana Cash Anticipation Notes for the Municipal Finance Consolidation Program. Approximately \$5,000,000 of bonds for the Pooled IDB Program are expected to be issued in October 1985.

AGENCY RESPONSE

MONTANA ECONOMIC DEVELOPMENT BOARD

DEPARTMENT OF COMMERCE



TED SCHWINDEN, GOVERNOR

1424 9TH AVENUE

STATE OF MONTANA

(406) 444 2090

HELENA, MONTANA 59620-0401

October 1, 1985

RECEIVED

OCT 01 1985

MONTANA LEGISLATIVE AUDITOR

Mr. James Gillett, Deputy Legislative Auditor
Office of the Legislative Auditor
Room 135, State Capitol Building
Helena, Montana 59620

Dear Mr. Gillett:

Per your request on September 25, 1985, the staff of the Montana Economic Development Board has prepared a response to the audit recommendations. These responses have not been approved by the Board, as the report has not been made public. As a result, these responses are preliminary in nature and are not the official opinion of the Board. The board will review the staff's response and either accept or amend the staff's response, after the report has been released for public review.

I have attached an original copy of the staff's response for printing with the report.
Sincerely,

A handwritten signature in cursive script, appearing to read "Robert M. Pancich".

Robert M. Pancich
Administrator

RMP/jdr

Board of Directors:

D. Patrick McKittrick, Chairman
Great Falls
Yvonne Snider
Lewistown
Jeremiah R. Sullivan
Helena

G. Steven Brown
Helena
Karen K. Locke
Eureka

John C. Orth
Butte
Jackson L. Schutte
Billings

RECOMMENDATION # 1:

WE RECOMMEND THE BOARD RECORD ALL ACTIVITY IN THE ENTERPRISE FUND.

RESPONSE:

DO NOT CONCUR.

The Montana Economic Development Board (MEDB) staff requested alternative financial schedules be prepared primarily for disclosure in the official statements for the Board bond issues. In the 85 Biennium, administrative costs of the MEDB Industrial Development Revenue Bond (IDB) Program were funded by a general fund start up appropriation and an enterprise appropriation. The financial statements used in the official statement for the Series 1984 A-G issue were prepared by fund structure (in accordance with Governmental Accounting Auditing and Financial Reporting - GAAFR) instead of by program. The Coal Tax Loan Program (CTLP) was also funded by general fund. Bond buyers of the IDB Program could not evaluate the results of the bond program as a separate entity during the past year on GAAFR statements. It was this confusion that prompted the alternative format.

The CTL Program contains several different fund types. As of June 1, 1985, the loan processing fees collected by the Board are deposited into the loan loss reserve fund to help cover losses resulting from loan defaults. A portion of the coal severance tax revenue collected is initially deposited into a debt service account to cover deficiencies in the Department of Natural Resources and Conservation (DNRC) Water Bond Program. The funds remaining in the debt service account after DNRC has withdrawn their portion are transferred to a non-expendable trust fund that accounts for the assets of the Montana In-State Investment Fund (MISIF). The MISIF includes loans to Montana businesses, investments in Short-Term Investment Program (STIP) and a small cash balance. The flow of funds through the different accounting entities is prescribed in law. The administration of the CTL Program is a function of general state government. As such appropriations in the general fund are not related to the operations of the loans themselves, interest earned or number of loans or applications processed in the CTL Program. The recording of assets, liabilities, fund balance, revenues and expenditures as they have been done in the past allows for proper accounting of the state's activities of the CTL Program.

It is important to protect the integrity of the state's accounting system by recording true and accurate information on the Statewide Budgeting and Accounting System (SBAS). This will avoid possible misinterpretation and insure an accurate presentation of statewide financial statements prepared by the Department of Administration. Financial statements of the Board, prepared for use by prospective bondholders, present better information to the users of the statements when done in a program-oriented format, rather than a strict GAAFR statement.

Since: 1) All activity that should be recorded in an enterprise funds are currently being accounted for there, and 2) the CTL Program

is currently being accounted for in the funds prescribed by law, the MEDB will continue accounting procedures currently in effect.

RECOMMENDATION # 2:

WE RECOMMEND THE BOARD RECORD ALL BOND ACTIVITY IN A TIMELY MANNER ON THE STATE'S ACCOUNTING RECORDS.

RESPONSE:

CONCUR WITH RESERVATIONS.

The MEDB staff agrees to record all Pooled Industrial Development Revenue Bond activity on the state's accounting records in a timely manner. Since the Pooled IDBs are only a liability to the State of Montana to the extent of the Board's "revenues or assets" and the credit of the state is not pledged per MCA 17-5-1523, the MEDB staff requests that any presentation of Pooled IDB activity in any financial statement be properly footnoted to explain the extent of liability to the Board and the State of Montana.

